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| <p align="center">2003-2004 ANNUAL REPORT</p> |
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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds

The Construction Tax is a flat fee assessed on residential, commercial, and industrial development. The Conveyance Tax is imposed at a rate of \$3.30 per \$1,000 of the value of the conveyed property. Revenues collected in the Construction and Conveyance Tax Funds are dedicated to the Park and Community Facilities Development, Communications, Fire, Library, and Service Yards capital programs.

***Construction and
Conveyance Tax
Funds***

| | Budget | Actual | Variance | Percent Variance |
|------------------------------|---------------|---------------|-----------------|-----------------------------|
| <i>Revenue</i> | \$ 40,592 | \$ 59,329 | \$ 18,737 | 46.2% |
| <i>Expenditure</i> | 62,637 | 52,671 | 9,966 | 15.9% |
| <i>Fund Balance (est. *)</i> | 50,957 * | 65,127 | 14,170 | 27.8% |

Revenues in 2003-2004 included: Construction and Conveyance tax receipts; transfers between funds; State and federal grants; interest; and miscellaneous revenues.

The elements of the revenue variance were (\$000's):

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|--|------------------|
| Construction and Conveyance Tax Revenue | \$ 14,199 |
| Transfers of Construction and Conveyance | |
| Revenue between Funds | 9,453 |
| Interest Earnings and Miscellaneous Revenues | 1,325 |
| Grants | <u>(6,240)</u> |
| Total | \$ 18,737 |

In 2000-2001 Construction and Conveyance Tax revenues experienced a record-setting collection level of \$31.6 million. Due to the economic slowdown, which impacted real estate sales, there were sharp declines in this revenue in 2001-2002 and 2002-2003. The 2003-2004 Adopted Capital Budget presumed a continuation of this downward trend, consistent with the lack of improvement in the local economy. In 2003-2004, much to our surprise, there was a sharp increase in activity in the local real estate market, and consequently, Construction and Conveyance Tax revenues began to rise again and actually ended the year with a new record-setting collection level. Receipts for 2003-2004 totaled \$38.2 million, an increase of almost \$13.4 million (53.8%) from the prior year. These revenues far exceed the budgeted estimate of

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Construction and Conveyance Tax Funds (Cont'd.)

\$24.0 million by \$14.2 million. Consistent with the increase in Construction and Conveyance Tax revenues, the number of real estate sales in San José in 2003-2004 rose significantly from the prior year, with an increase of 41.4%. Similarly, the single family median home price as of June 2004 of \$585,000 was 14.5% higher than June 2003 figure of \$511,000. Both of these developments far exceeded our expectations in the local economy.

The higher than anticipated tax collections also positively impacted the transfer category because of the methodology used to distribute the tax revenue to individual Parks Construction and Conveyance Tax funds.

The positive interest earnings and miscellaneous revenues variance was due to higher than expected average cash balances. Grant revenue on the other hand was below anticipated levels because many of the grants are paid on a reimbursement basis and the work has not yet been completed. In addition, a number of the projects were recently completed, but the reimbursement requests have not yet been finalized. Many of these grants are expected to be received in 2004-2005.

The expenditure variance of \$10.0 million, or 15.9%, is primarily the result of unexpended capital project funds. The majority of these expenditure savings were anticipated and the funds were rebudgeted to 2004-2005 to complete these projects. Additional rebudgets are recommended in this report to provide sufficient funding to complete the projects.

The following is a list of projects in which unexpended balances exceeded \$300,000.

| | | <u>(\$000's)</u> |
|---------------------|--|------------------|
| Council District 1: | Youth Center-District 1 | \$ 1,101 |
| Council District 5: | Community Center Landscaping | 300 |
| City-Wide: | Historic Homes Preservation-Overfelt House | 744 |
| | Municipal Golf Course Cart Barn | |
| | Conversion | 400 |
| | Alum Rock Park/Quail Hollow Bridge | 346 |
| Communications: | Communication Equipment Replacement | 322 |
| Fire: | Fire Station Privacy | 345 |
| Library: | Berryessa Branch FF&E | 900 |
| | General Equipment and Furnishings | 369 |
| | Automation Projects | 329 |
| Service Yards: | Central Service Yard Roof Replacement | <u>527</u> |
| Total | | \$ 5,683 |

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

Following are descriptions of significant project variances:

- The Youth Center-District 1 and Community Center Landscaping projects were delayed.
- The Historic Homes Preservation-Overfelt House project was temporarily delayed while the Parks, Recreation and Neighborhood Services Department determined if there would be enough funding available from granting sources to complete the project. Since these grants have now been secured, the project will resume.
- The Municipal Golf Course Cart Barn Conversion project produced savings due to a delay in negotiating a contract with an architect. An architect was hired in August 2004, so this project will continue.
- The Alum Rock Park/Quail Hollow Bridge project produced a large savings due to the late award of the construction contract. The contract has been awarded and the project will continue.
- The Communication Equipment Replacement project produced savings last year because staff was not able to make all their purchases by the end of the fiscal year. These purchases will be made in 2004-2005.
- The Fire Station Privacy project funds have not been expended to date as several of the privacy needs that the Fire Department has identified may potentially be funded through the Neighborhood Security Act Bond Fund as part of station upgrades/remodels. The Fire Department is in the process of assessing and identifying funding for privacy projects.
- The Berryessa Branch Fixtures, Furnishings and Equipment (FF&E) project produced a large savings due to a delay in the completion of the project, which delayed the purchase of FF&E. These purchases, however, are scheduled to be made in 2004-2005.
- The Library General Equipment and Furnishings project produced savings based on the actual demand for these ongoing funds in 2003-2004.
- The Automation Projects funding is used as needed, and the remaining savings have been rebudgeted to the following year.
- The Central Service Yard Roof Replacement project was delayed due to the project being rescoped.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

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The Kelley Park Maintenance Yard Renovation project in the Park Yards Fund and the CIP Action Team project in the Central Fund were over-expended at year-end and require ratification due to the redistribution of Public Works and CIP Action Team costs during the year-end closing process. The reallocation of these costs was designed to more accurately distribute costs and was based on a consultant study.

The 2003-2004 ending fund balance in the combined Construction and Conveyance Tax Funds was \$14.2 million greater than the budgeted estimate primarily due to higher than anticipated Construction and Conveyance Tax revenue, partially offset by lower than anticipated grant receipts. For purposes of developing the 2004-2005 Adopted Capital Budget, it was assumed that Construction and Conveyance Tax revenues would total \$24.0 million in 2003-2004. This was \$14.2 million below the actual collection level. These additional funds are recommended in this report to be distributed to the various Construction and Conveyance Tax funds according to the regular formula.